

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Oak Ridge Financial Services, Inc.

Point of Contact:	Thomas W Wayne	RSSD: (For Bank Holding Companies)	3587427
UST Sequence Number:	381	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	7,700,000	FDIC Certificate Number: (For Depository Institutions)	35365
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	35365
Date Funded (first funding):	January 30, 2009	City:	Oak Ridge
Date Repaid ¹ :	N/A	State:	North Carolina

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Our gross loans increased from \$251.3 million at December 31, 2009 to \$256.5 million at December 31, 2010. During this period of time total loans at most commercial banks declined.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

Commercial and industrial loans increased from \$25.9 million at December 31, 2009 to \$34.5 million at December 31, 2010. Nonfarm, nonresidential loans increased from \$85.5 million at December 31, 2009 to \$88.4 million at December 31, 2010.

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☐ Increase securities purchased (ABS, MBS, etc.).

☒ **Make other investments.**

Our Community Loan Investment Program, which has been in place since February 2009, offers incentives to buyers of our builder homes financed by the Bank. We have been able to move 14 out of 19 jumbo homes and 14 out of 19 conventional homes out of our builder construction portfolio.

☒ **Increase reserves for non-performing assets.**

Our allowance for loan losses increased from \$3.7 million at December 31, 2009 to \$4.4 million at December 31, 2010.

☐ Reduce borrowings.

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☒ Increase charge-offs.

0

☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

0

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The main benefit of the capital infusion of CPP funds has been to avoid issuing capital at extremely dilutive prices due to the lack of availability of capital to smaller organizations. This has allowed our local community bank to remain locally owned and operated.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

We have attempted to proactively address the needs of the Bank, our borrowers, and the community through our Community Loan Investment Program, which has been in place since February 2009, and offers incentives to buyers of our builder homes financed by the Bank. Through our Community Loan Investment Program, which is being utilized by the majority of our builders', as of December 31, 2010 we have been able to move 14 out of 19 jumbo homes and 14 out of 19 conventional homes out of our builder construction portfolio— either to permanent mortgages placed with other lenders or permanent mortgages financed by the Bank to qualified borrowers. The program has resulted in the reduction of our exposure to jumbo homes from \$10.5 million to \$3.4 million, and the reduction of our exposure to conventional homes from \$4.9 million to \$1.1 million. This program can be accessed through our website at www.bankofoakridge.com. We have also extended the Community Loan Investment Program to cover the residential lot inventory of our development borrowers, and will be rolling out an incentive program targeted specifically at our financed lots in late March or April of 2011. Managing CapitalThe Company was able to bolster its capital levels through its \$7.7 million participation in the CPP on January 30, 2009. Of the total \$7.7 million CPP funds received, to date \$1.1 million of the CPP funds have been contributed to the Bank as additional equity capital. Approximately \$6.8 million in unused capital, which includes approximately \$100,000 in earnings since the Company received the CPP funds, are retained by the Company but could be pushed down to the Bank if needed. The Company has concluded that at the current time it is not feasible, due to weak equity market conditions, or preferable, due to the potential dilution of current shareholders, to raise equity in the open markets. However, the Company established an Employee Stock Ownership Plan ("ESOP") in the second quarter of 2010 as one possible vehicle to generate equity. During the year ended December 31, 2010, the Company, at the request of the Board of Directors, made a \$900,000 pre-tax ESOP accrual that may be converted to common equity of the Company at a later date. The Company believes that there are many advantages to an ESOP as a vehicle to raise capital, with the principal ones being favorable tax treatment of ESOP contributions, possible lower dilution to existing shareholders' compared to an equity offering, and the promotion in the Bank's marketplace of every employee as a participant in the ESOP owning a part of the Company.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.